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COMMISSION OPINION

of 15.11.2013

on the Draft Budgetary Plan of SLOVAKIA

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area for ensuring that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact (SGP) and the European Semester for economic policy coordination.
2. Article 6 of Regulation (EU) No 473/2013 requires Member States to submit annually by 15 October to the Commission and to the Eurogroup a draft budgetary plan presenting the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.

CONSIDERATIONS CONCERNING SLOVAKIA

3. On the basis of the Draft Budgetary Plan for 2014 submitted on 15 October 2013 by Slovakia, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.
4. Slovakia is currently subject to the corrective arm of the SGP. The Council opened the Excessive Deficit Procedure for Slovakia on 2 December 2009 and recommended to correct the excessive deficit by 2013 at the latest. After the correction of the excessive deficit, Slovakia will be subject to the preventive arm of the SGP and should ensure sufficient progress towards its MTO.
5. After the slowdown in 2013, growth is expected to rebound in 2014. The Draft Budgetary Plan projects real GDP to grow slightly above 2%. This is in line with the Commission 2013 Autumn Forecast, even though there are some differences regarding the composition of this growth. The main contribution to growth in the macroeconomic scenario underlying the Draft Budgetary Plan comes from net exports, while the Commission projects that growth will be mainly driven by a recovery in domestic demand. The risks to the macroeconomic scenario underpinning the Draft Budgetary Plan appear to be balanced and the scenario is deemed realistic.
6. The macroeconomic forecast presented in the Draft Budgetary Plan has been produced by the Institute for Financial Policy of the Ministry of Finance and was endorsed by the national Macroeconomic Forecasting Committee. The latter was formally established by the Constitutional act on budgetary responsibility adopted in December 2011. It serves as an advisory body to the Minister of Finance. The Committee consists of representatives from private banks, the central bank and independent economic analysts. According to information available to the Commission, its independence from government influence is anchored in the Committees' statutes.
7. The Draft Budgetary Plan of Slovakia forecasts the general government deficit to reach 3% of GDP in 2013, slightly above the target of 2.9% of GDP in the 2013 stability programme. The authorities took additional measures in the course of the

year to address tax revenue shortfalls, non-realised non-tax revenues, accumulation of new hospital debt, and expenditure slippages of local governments, universities and various budgetary organisations. Measures taken into account in the Draft Budgetary Plan, the impact of which will have to be assessed by Eurostat, included the frontloading of the sale of emergency oil reserves and savings within the state budget. A slower-than-budgeted drawdown of EU funds is also expected to have a positive impact on the deficit outturn. For 2014, the Draft Budgetary Plan targets a headline deficit of 2.8% of GDP. This is somewhat less ambitious than the target of 2.6% of GDP presented in the 2013 Stability Programme, which, however, did not sufficiently specify concrete measures to reach the target. The fiscal adjustment in 2014 is foreseen to be largely driven by a faster growth of revenues compared to expenditures. Projected revenue increases are mainly due to one-off measures, while expenditure growth mainly reflects strong increase in intermediate consumption, which partly relates to acceleration of drawdown in EU funds.

8. The 2013 deficit target of the Draft Budgetary Plan seems within reach but a particular uncertainty with respect to the final outturn may come from the financial corrections related to the projects financed from the EU funds. In 2014, expenditure could be somewhat higher than expected in the Draft Budgetary Plan mainly because of implementation risks related to the on-going reforms of public administration and health care. This is reflected in the Commission 2013 Autumn Forecast, which projects a deficit of 3.2% of GDP in 2014, also based on a conservative assumption on non-recurrent revenue.

9. According to the Draft Budgetary Plan, the debt ratio will grow more slowly compared to the trajectory in the most recent Stability Programme. A planned pay-out of an extraordinary dividend by state-owned companies will moderate the increase in the public debt ratio in 2013. In 2014, the debt ratio will approach 57% of GDP according to the Draft Budgetary Plan. The Commission projects a somewhat faster increase in the debt ratio. The discrepancy with the Draft Budgetary Plan is solely due to somewhat different projections for the headline deficit.

10. The consolidation effort for 2014 presented in the Draft Budgetary Plan is concentrated on the revenue side. Several of the underlying revenue measures – such as an extension of the special levy on high-profit companies operating in the regulated environment and the introduction of a minimum lump-sum corporate income tax accompanied by a reduction of the corporate income tax rate from 23% to 22% – have a structural character. However, several measures in the Draft Budgetary Plan are of one-off nature. These include the postponed payout of the dividends from the state-owned companies (the possible impact of which will have to be analysed by Eurostat) and the auction of telecom licences. On the expenditure side, savings are expected from reforms in public administration and health care, which are subject to implementation risks.

11. The planned headline deficit in the Draft Budgetary Plan is 3% of GDP in 2013, which is in line with bringing the deficit within the SGP reference threshold in 2013. This projection is confirmed by the Commission 2013 Autumn Forecast. For 2014 the Draft Budgetary Plan targets a headline deficit of 2.8% of GDP, while on current policies the Commission projects the deficit to increase to 3.2% of GDP, suggesting that a durable correction of the excessive deficit may not be ensured. Nevertheless, the average annual fiscal effort, adjusted for changes in potential growth and revenue shortfalls compared to the forecast underpinning the EDP recommendation, for the

period 2010-13 amounts to 2% of GDP, which is well above the annual average fiscal effort of 1% of GDP recommended by the Council.

12. On the basis of the recalculated structural balance from the Draft Budgetary Plan the structural balance would deteriorate slightly in 2014 compared to 2013. This would imply that Slovakia does not meet the required annual minimum effort embeddded in the Stability and Growth Pact. According to the information provided in the Draft Budgetary Plan, in 2014 the growth rate of government expenditure, net of discretionary revenue measures, is expected to contribute to an annual structural adjustment towards the MTO by 0.5% of GDP. This is because the growth rate of this expenditure category is projected at 1.5%, the lower rate under the expenditure benchmark. The expenditure benchmark would be met on the condition that envisaged savings materialise fully and/or discretionary revenues collected as planned.

13. Slovakia is making continued progress in implementing measures to improve tax collection and fight tax fraud, especially with respect to VAT (e.g. the planned introduction of a VAT monitoring statement and broadening of application of reverse charge). This corresponds well to the Council recommendations issued in the context of the European Semester from July 2013 on improving tax efficiency. The recommendation calling for reduction of the tax wedge for low-income workers may partly be addressed by the government's plans to exempt wages of low-income workers from paying social security contributions during the first year of employment. Nevertheless, the indicated reduction in the spending on education and investment is not in line with the recommendation to safeguard growth-enhancing expenditure.

14. Overall, based on the 2013 Autumn Forecast, the Commission is of the opinion that the Draft Budgetary Plan of Slovakia sent on 15 October 2013 is broadly compliant with the rules of the SGP. In particular, Slovakia is expected to bring the general government deficit within the 3% reference threshold in 2013 in line with the EDP recommendation. However, based on the Commission forecast, the durability of correction is not ensured in 2014. In addition, the Draft Budgetary Plan relies significantly on revenue measures of a one-off nature, which will need to be replaced by more structural ones in the following years to ensure sustainability of the correction. Moreover, although Slovakia limits the growth of expenditure in line with the expenditure benchmark, it does not reach the required structural adjustment towards the MTO in 2014. The Commission is also of the opinion that Slovakia has made limited progress with regard to the structural part of the fiscal recommendations issued by the Council in the context of the European Semester. At this stage, Slovakia cannot be considered eligible to benefit from the investment clause, as it is still subject to the excessive defcit procedure. Compliance with both the EDP debt and deficit criteria is a necessary though not sufficient condition to benefit from the investment clause. The Commission invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2014 budget will be fully compliant with the SGP and to accelerate progress towards implementation of the fiscal recommendations under the European Semester.

Done at Brussels, 15.11.2013

For the Commission
Olli REHN
Vice-President